



# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson*  
Director

## SUMMARY OF THE PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM INVESTMENT COMMITTEE

**HELD ON**  
**Monday, September 10, 2012**  
**8:00 a.m.**

The Arizona State Retirement System (ASRS) Investment Committee (IC) met at 3300 N. Central Avenue, 14<sup>th</sup> Floor, Phoenix, AZ 85012. Mr. Tom Connelly, Chair of the IC, called the meeting to order at 08:03 a.m.

### **1. Call to Order; Roll Call; Opening Remarks**

Present: Mr. Tom Connelly, Chair  
Prof. Dennis Hoffman, Vice-Chair (via telephone conference call)  
Mr. Mike Smarik

Absent: None.

A quorum was present for the purpose of conducting business.

### **2. Presentation, Discussion, and Appropriate Action Regarding the Cortex Investment Management Program Governance Review and Consultant Utilization Review**

Mr. Paul Matson, Director, provided the Committee with a brief background and history of the ASRS Investment Governance Practices and retaining Cortex for the reviews.

Mr. Connelly introduced Mr. Tom Iannucci, President of Cortex Applied Research. Mr. Iannucci detailed Cortex's pension background, experience and their views on Governance as well as provided an executive summary of the Cortex report and presentation, which outlined the key ASRS Investment Management Program issues from the Cortex perspective, including:

- 1). Independence & Autonomy
- 2). Delineation of Authority
- 3). Strategic Planning
- 4). Governance Reviews.

Mr. Allan Martin, Consultant of NEPC, provided favorable comments, in terms of objectivity and completeness to Cortex's analysis.

Mr. Iannucci engaged the Investment Committee with the presentation overview discussing the project objectives, good governance, best practices (procedural criteria and best practices criteria), and the Cortex strategic findings and recommendations.

Mr. Gary Dokes, Chief Investment Officer asked Mr. Iannucci regarding the relationship between the level of compensation and the general performance of staff. Mr. Iannucci believes the industry is facing issues as a whole with regard to linking compensation to performance.

With regard to best practices, Mr. Connelly expressed concerns over the possible composition of the Board and their need to be knowledgeable. Mr. Connelly requested strategic planning, investment, and operation representation on the Board and questioned what is done to help influence the process of Board selection or (for an entity to) have input and provide perspective to those appointing bodies. Mr. Iannucci suggested that an inventory of skills be taken and the resulting information be communicated to the appointing bodies.

Mr. Smarik posed a question to Mr. Matson regarding the ADOA personnel reform. Mr. Matson stated that this reform could add complexity and constraints to the ASRS Investment Management Personnel and compensation autonomy, however the Executive Office is striving to ensure that the reform will be very efficient.

With regard to the Cortex recommendation of delineation of authority and the strengths of the current structure, Mr. Matson affirmed his support of a separation of oversight and management. With regard to trustee input, Mr. Matson believes there are two ways to obtain input: 1). Develop and document a manager selection process, 2). Allow additional input from various parties including trustees through informal processes, e.g. telephone or dinner discussions, such that the intellectual talent can be tapped on an as needed basis. Mr. Matson is in support of formulating a policy at a macro level and being sensitive to individual's time and talents.

Mr. Dokes provided his support of the recommendations that trustees not be members of the Director's Asset Class Committees. He stressed the importance of effective communications between the Director, IC and trustees so that trustees clearly know how, why and what investment decisions are being made. Mr. Dokes also expressed support that risk controls and checks and balancing processes are in place to ensure trustees that investment decisions are made and stay within policy white-lines.

Mr. Iannucci agreed with Mr. Dokes' sentiments and echoed the challenge to maintain accountability of the staff yet also maintain the transparency and the oversight without having to get into the details. Mr. Iannucci stated transparency is better achieved by providing the right information through report form or through informal channels. Mr. Connelly concurred with Mr. Iannucci's statements concerning the achievement of accountability.

Mr. Smarik asked Mr. Matson if Investment Management was in agreement of Cortex's recommendations. Mr. Matson expressed his agreement to Cortex recommendations and agreed to draft a management response.

For future discussion, Mr. Connelly expressed concerns regarding the Cortex recommended structure as it relates to the auditors and their general role. Mr. Connelly requested more clarity and specifics of real world execution, in addition to the Cortex views of the best method to execute the proper monitoring and reporting function, which Mr. Connelly feels would be a great asset to the board. Mr. Iannucci affirmed the important role of the auditor and suggested the Board consider expanding the auditor's role, as needed, to suite the required information, furthermore supporting the structure and better facilitating the level of accountability and delegation to staff.

Mr. Connelly expressed concerns to Mr. Matson with regard to the implementation of the recommendations and how the ASRS should proceed and in what venue. Mr. Matson stated the recommendations could be implemented very simply; however the only problematic area would be the Strategic Plan due to budget constraints and the lag time of implementing the decisions. Mr. Matson suggested he (Mr. Matson) lead a formal Strategic Planning session

with the Deputy Director, CIO and Investment Management Portfolio managers. Mr. Matson then outlined the plan to engage the Investment Committee (including discussing differing staff perspectives as requested by Mr. Connelly) with the Strategic Planning process and finally engaging the Board. Mr. Matson provided a brief overview of the IMD Investment Beliefs and framed it as the platform to be incorporated into the Strategic Plan.

### **3. Call to the Public**

No members of the public requested to speak.

### **4. Adjournment**

The meeting adjourned at 10:09 a.m.

Respectfully submitted,

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Chasity Byrd, Secretary

Date

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Gary Dokes, Chief Investment Officer

Date